BC FORM 51-901F
Schedule A: FINANCIAL STATEMENTS

# NEXTRON CORPORATION

FINANCIAL STATEMENTS

<u>DECEMBER 31, 2001 and 2000</u>

# INDEX

**BUCHANAN BARRY LLP**
**CHARTERED ACCOUNTANTS**

# AUDITORS' REPORT

To the Shareholders of
**Nextron Corporation**

We have audited the balance sheets of Nextron Corporation as at December 31, 2001 and 2000 and the statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
February 28, 2002

"signed by Buchanan Barry LLP"
CHARTERED ACCOUNTANTS

# NEXTRON CORPORATION

BALANCE SHEETS
AS AT DECEMBER 31

## ASSETS

| | 2001 | 2000 |
|---|---|---|
| **Current** | | |
| Accounts receivable | $ 371,186 | $ 275,352 |
| Inventory | 418,657 | 328,925 |
| Prepaid expenses | 15,212 | 27,076 |
| | 805,055 | 631,353 |
| **Capital Assets** (Note 3) | 98,897 | 100,135 |
| **Deferred Development Costs** (Note 4) | 87,986 | 313,366 |
| | $ 991,938 | $ 1,044,854 |

## LIABILITIES

| | 2001 | 2000 |
|---|---|---|
| **Current** | | |
| Bank indebtedness (Note 5) | $ 33,895 | $ 249,081 |
| Accounts payable and accrued liabilities | 244,906 | 363,538 |
| Current portion of long-term debt (Note 6) | 120,000 | 41,667 |
| | 398,801 | 654,286 |
| **Long-term Debt** (Note 6 and 12) | 1,010,520 | 345,520 |
| | 1,409,321 | 999,806 |

## CAPITAL DEFICIENCY

| | 2001 | 2000 |
|---|---|---|
| **Share Capital** (Note 7) | 2,440,072 | 2,440,072 |
| **Deficit** | (2,857,455) | (2,395,024) |
| | (417,383) | 45,048 |
| | $ 991,938 | $ 1,044,854 |

APPROVED ON BEHALF OF THE BOARD:

"Signed by" Director
Duane A. Schmeeckle

"Signed by" Director
David Hill

*Buchanan Barry LLP*

# NEXTRON CORPORATION

## STATEMENTS OF LOSS AND DEFICIT
## FOR THE YEARS ENDED DECEMBER 31, 2001 and 2000

| | 2001 | 2000 |
|---|---|---|
| **Revenue** | $ 1,263,211 | $ 1,546,016 |
| **Cost of Sales** | 740,571 | 853,924 |
| **Gross Profit** | 522,640 | 692,092 |
| **Expenses** | | |
| Amortization of capital assets | 21,100 | 17,106 |
| Amortization of deferred development costs | 143,670 | 172,129 |
| Bank charges and interest | 7,672 | 23,557 |
| Interest on long-term debt | 4,055 | 18,973 |
| Marketing, selling, general and administration | 634,242 | 732,517 |
| | 810,739 | 964,282 |
| **Loss from Operations** | 288,099 | 272,190 |
| **Other Loss (Income)** | | |
| Other income | (15,548) | - |
| Loss on disposal of capital assets | - | 13,591 |
| | (15,548) | 13,591 |
| **Loss from Continuing Operations** | 272,551 | 285,781 |
| **Discontinued Operations** (Note 8) | | |
| Net operating loss | 54,168 | 88,684 |
| Loss from closure | 135,712 | - |
| | 189,880 | 88,684 |
| **Net Loss** | 462,431 | 374,465 |
| **Deficit**, beginning of year | 2,395,024 | 2,020,559 |
| **Deficit**, end of year | $ 2,857,455 | $ 2,395,024 |
| **Loss from Continuing Operations Per Share** (Note 11) | $ 0.022 | $ 0.028 |
| **Basic and Diluted Loss Per Share** (Note 11) | $ 0.037 | $ 0.037 |

# NEXTRON CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 and 2000

| | 2001 | 2000 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net loss | $ (462,431) | $ (374,465) |
| Amortization | 217,041 | 296,243 |
| Loss on disposal of capital assets | - | 13,591 |
| Loss from discontinued operations | 135,712 | - |
| | (109,678) | (64,631) |
| Change in non-cash working capital items | | |
| Accounts receivable | (95,834) | 60,365 |
| Inventory | (135,029) | (36,525) |
| Prepaid expenses | 11,864 | (19,455) |
| Accounts payable and accrued liabilities | (97,130) | 86,082 |
| | (316,129) | 90,467 |
| | (425,807) | 25,836 |
| **Cash Flows from Investing Activities** | | |
| Payment for future royalties on discontinued operations | (85,000) | - |
| Proceeds from discontinued operations | 75,355 | - |
| Acquisition of capital assets | (19,862) | (5,482) |
| Expenditures for deferred development costs | (72,833) | (105,483) |
| | (102,340) | (110,965) |
| **Cash Flows from Financing Activities** | | |
| Long-term debt issued | 200,000 | - |
| Long-term debt repayments | (91,667) | (129,001) |
| Promissory notes issued | 635,000 | 215,000 |
| Share issue costs | - | (2,675) |
| | 743,333 | 83,324 |
| **Net Change in Cash** | 215,186 | (1,805) |
| **Bank Indebtedness,** beginning of year | (249,081) | (247,276) |
| **Bank Indebtedness,** end of year | $ (33,895) | $ (249,081) |

# NEXTRON CORPORATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

## 1. Significant Accounting Policies

The financial statements of the company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

### Going Concern Consideration

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presumes that the company will continue in operation in the future and be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The company has incurred significant losses since its startup. Costs relating to development incurred in previous years have been deferred to be recovered from future revenues. The company's ability to continue as a going concern and recover these costs is dependent upon achieving profitable operations and the continued support of its lenders or its ability to raise additional equity financing. The outcome of these matters can not be predicted at this time. These financial statements do not include any adjustments to the recovery and classification of recorded amounts that might be necessary should the company be unable to continue as a going concern.

### Inventory

Inventory is valued at the lower of cost or net realizable value, cost being determined on an average cost basis.

### Capital Assets

Capital assets are recorded at cost. Furniture and equipment are amortized using the declining-balance method at an annual rate of 20%. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

### Research and Development

The company defers development expenditures relating to the creation of new products. Amortization of these costs commence upon commercial production, with the related expenditures amortized over a period of three years in annual amounts proportionate to budgeted revenues. Any revisions to budgeted revenues are treated as a change in estimate in the year of revision. If the product is cancelled or judged to be not commercially viable all deferred development costs related to the product are expensed in the year of determination. Research costs of a general nature are expensed during the year.

# NEXTRON CORPORATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

## 1. Significant Accounting Policies (cont'd)

### Future Income Taxes

The company follows the liability method of income tax allocation. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

### Stock-Based Compensation

The company has a stock-based compensation plan, which is described in Note 7. No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration paid by employees on the exercise of stock options is credited to share capital.

### Foreign Currency Translation

Transactions and balances denominated in foreign currencies are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary items and revenues and expenses are translated at the rates in effect at the date of the transaction. Exchange gains and losses are recorded in income for the year.

## 2. Change in Accounting Policy

The company has retroactively adopted the new Canadian Institute of Chartered Accountants recommendations for per share calculations. The new standard utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares outstanding is calculated assuming the proceeds that would arise from the exercise of the in the money portion of the options would be used to purchase common shares of the company at their average market price. The new method was applied retroactively with no impact on the 2000 diluted per share amounts. Previously, the company utilized the imputed earnings method to calculate diluted per share amounts.

## 3. Capital Assets

| | 2001 | | 2000 | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Furniture and equipment | $ 214,327 | $ 120,100 | $ 198,746 | $ 99,796 |
| Leasehold improvements | 5,483 | 813 | 1,205 | 20 |
| | $ 219,810 | $ 120,913 | $ 199,951 | $ 99,816 |
| Net Book Value | $ 98,897 | | $ 100,135 | |

# NEXTRON CORPORATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

## 4. Deferred Development Costs

| | 2001 | 2000 |
|---|---|---|
| Balance, beginning of year | $ 313,366 | $ 487,019 |
| Costs deferred during the year | 72,833 | 105,483 |
| Disposition of product line during the year | (102,272) | - |
| Amortization | (195,941) | (279,136) |
| Balance, end of year | $ 87,986 | $ 313,366 |

## 5. Bank Indebtedness

| | 2001 | 2000 |
|---|---|---|
| Operating loan | $ 20,000 | $ 245,000 |
| Bank balance less outstanding cheques | 13,895 | 4,081 |
| | $ 33,895 | $ 249,081 |

The operating loan bears interest at Toronto Dominion Bank prime plus 1%, is due upon demand, secured by a general security agreement and personal guarantees of the directors of the company. The maximum loan under this facility is $50,000.

## 6. Long-Term Debt

| | 2001 | 2000 |
|---|---|---|
| Commercial Term Loan bearing interest at prime plus 1.875% repayable in monthly instalments of $10,000 due March 2003, secured by a general security agreement, fire insurance coverage with loss payable to the Toronto Dominion Bank and personal guarantees of the directors of the company. | $ 150,000 | $ - |
| Commercial Term Loan bearing interest at prime plus 1.75% repayable in monthly instalments of $8,333 plus interest due April 1, 2001, secured by limited personal guarantees from the directors | - | 33,334 |
| Commercial Term Loan bearing interest at prime plus 1.75% repayable in monthly instalments of $2,083 plus interest due April 1, 2001, secured by limited personal guarantees from the directors | - | 8,333 |
| Notes payable bearing interest at 10% per annum due January 31, 2003. | 980,520 | 345,520 |
| | 1,130,520 | 387,187 |
| Less current portion | 120,000 | 41,667 |
| | $ 1,010,520 | $ 345,520 |

# NEXTRON CORPORATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

**6. Long-Term Debt (cont'd)**

Scheduled principal repayments for long-term debt are as follows:

| | |
|---|---|
| 2002 | $ 120,000 |
| 2003 | 1,010,520 |
| | $ 1,130,520 |

The holders of the notes payable have waived all interest payable for the year ended December 31, 2001.

**7. Share Capital**

Authorized
Unlimited number of
Common voting shares
Preferred shares issuable in one or more series

Issued and outstanding

| | 2001 | | 2000 | |
|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount |
| **Common Shares** | | | | |
| Balance, beginning of year | 12,339,455 | $ 2,440,072 | 8,806,000 | $ 1,736,056 |
| Shares issued on conversion of notes payable | - | - | 3,533,455 | 706,691 |
| Share issue costs | - | - | - | (2,675) |
| Balance, end of year | 12,339,455 | $ 2,440,072 | 12,339,455 | $ 2,440,072 |

**Note Conversion**

On August 16, 2000, $706,691 of notes payable were converted to 3,533,455 common shares.

**NEXTRON CORPORATION**

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

7. **Share Capital (cont'd)**

**Stock Options**

The company has established a stock option plan for the benefit of the directors, officers and employees of the company. Options may be granted to purchase, in the aggregate, up to 10% of the common shares of the company at any time at a price not less than the minimum permitted by The Canadian Venture Exchange. At December 31, 2001, options to purchase 985,000 common shares at prices ranging from $0.10 to $0.45 per share were outstanding. These options expire at various dates between May 10, 2003 and December 20, 2006. The following is a continuity of stock options outstanding:

| | 2001 | 2000 |
|---|---|---|
| Balance, beginning of year | 440,000 | 800,000 |
| Granted | 545,000 | - |
| Cancelled | - | (360,000) |
| Balance, end of year | 985,000 | 440,000 |

On various dates during the year, 545,000 stock options were issued with an option price of $0.10 per share. These options will expire between January 8, 2006 and December 20, 2006.

8. **Discontinued Operations**

On July 11, 2001 the company sold the rights and inventory of the Accutouch Division, producers of monitoring instruments.

The results of operations of this business segment for the period January 1, 2001 to July 11, 2001 are included in discontinued operations - operating loss. Comparative figures have been restated to conform with this basis of presentation.

Sales for the period amounted to $9,387.

Loss from closure of discontinued operations is comprised of the following:

| | |
|---|---|
| Legal and brokerage costs | $ 19,648 |
| Settlement of future royalties | 85,000 |
| Write-down of deferred development costs | 31,064 |
| | $ 135,712 |

9. **Financial Instruments**

Financial instruments of the company consist mainly of accounts receivable, bank indebtedness, accounts payable and accrued liabilities and long-term debt. As at December 31, 2001 and 2000, there are no significant differences between the carrying values of these amounts and their estimated market values.

**NEXTRON CORPORATION**

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

**10. Income Taxes**

The company has non-capital loss carryforwards of approximately $1,558,000 (2000 - $1,286,000) expiring between 2003 and 2008. The ability of the company to utilize the losses and other tax balances carried forward in the future is not more likely than not to be realized and therefore has not been recognized in the financial statements.

The effective tax rate of the company is approximately 45%. The difference between the effective rate and the actual rate of nil% is attributable to the fact that no future tax asset has been recorded for available loss carryforwards as their ultimate realization is uncertain.

The company has research and development expenditures of approximately $413,000 (2000 - $641,000) available for carryforward indefinitely.

The company has approximately $117,000 (2000 - $180,000) in non-refundable investment tax credits arising from qualified research and development expenditures which expire between 2007 and 2009.

**11. Loss Per Share**

Loss per share has been calculated on the basis of the weighted average number of common shares outstanding for the year which amounts to 12,339,455 shares (2000 - 10,176,903). As stock options outstanding at December 31, 2001 and 2000 were not in the money, no additional shares are included in the diluted loss per share.

**12. Related Party Transactions**

The company paid $nil in rent and reimbursements (2000 - $18,367) to a company under the control of the president. These transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Included in notes payable is $204,270 (2000 - $214,270) due to a company controlled by the president. The notes are unsecured and due January 31, 2003.

Included in notes payable is $720,000 (2000 - $75,000) due to directors. The notes are unsecured and due January 31, 2003.

Included in notes payable is $56,250 (2000 - $56,250) due to companies controlled by directors. The notes are unsecured and due January 31, 2003.

# NEXTRON CORPORATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

### 13. Commitments

The company has entered into lease agreements for equipment and rent. The estimated minimum lease payments are as follows:

| | |
|---|---|
| 2002 | $ 77,100 |
| 2003 | 74,100 |
| 2004 | 65,200 |
| 2005 | 48,600 |
| | $ 265,000 |

### 14. Prior Year's Figures

Certain of prior year's figures have been reclassified to conform to the current year's presentation.